

01 March 2022

# Thong Guan Industries Bhd

## Revenue Stretching Above RM1b

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**FY21 CNP** of RM94.4m came within our/consensus's expectation at 99%/100% of the estimate, and FY21 DPS of 5.5 sen is above our estimate. QoQ, CNP rose mainly due to higher revenue and resumption of production activities. We remain bullish on TGUAN due to its higher utilization rate and robust demand, and raise FY22E CNP by 15% to account for a favourable product mix and introduce FY23E estimates. We reiterate **OUTPERFORM** with a higher TP of RM3.90 (from RM3.68) at 13x PER on FY22E EPS of 30.0 sen.

**FY21 CNP within expectations.** FY21 CNP of RM94.4m came in line with our/consensus expectation at 99%/100% of the estimate. 4QFY21 DPS of 2.25 sen brought FY21 total DPS of 5.5 sen, which is above our estimate of 4.5 sen.

**YoY,** FY21 revenue crossed the RM1b mark, rising 26.5% to RM1.2b, mainly contributed by higher ASPs and higher sales volume from both plastic and F&B segments. Operating profit rose 26.5% in tandem with higher revenue and likely due to a better product mix. All in, CNP rose 19.4%.

**QoQ,** 4QFY21 revenue rose 10.7% on the back of: (i) increased sales volume from the plastic packaging segment, especially the courier bags, stretch film and premium packaging films, and (ii) resumption of production activities. Operating profit declined slightly by 0.3%, mainly due to higher production costs and higher depreciation charges as new machines for the courier bags segment have started commissioning. CNP rose by 7.4% to RM23m on a lower effective tax rate of 21.4% (vs. 3QFY21: 23.4%).

**Outlook.** Recently, geopolitical tension has driven oil prices higher and intensified global supply chain disruption, causing resin prices to increase c.10% since early 2022. Resin prices are expected to remain elevated until 1HCY22 and we gathered from management that ASPs will remain elevated in tandem with the heightened resin prices. TGUAN is currently operating at a utilization rate above 80%, as their premium products demand, namely stretch film, courier bags and other premium packaging films remains robust. Notably, its 16-acre new factory has been completed and machinery for its nano stretch film and the blown film will start running by the end of March. On the economic recovery path, we also expect its F&B segment will help to boost its top-line through e-commerce channels and marketing activities.

**Post result,** we increase FY22E revenue/CNP by 19%/15% to RM1.45b/RM115.3m to account for a more favorable product mix and increase FY22E DPS to 5.5 sen. We introduce FY23E revenue/CNP of RM1.75b/RM139.8m and DPS of 5.5, implying a 2.3% yield.

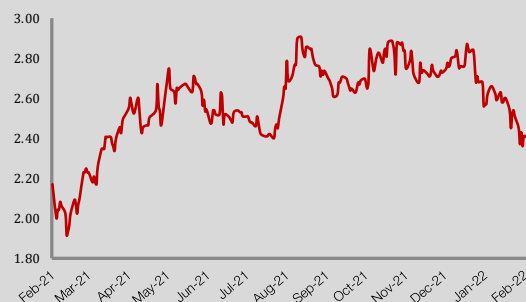
**Reiterate OUTPERFORM with a higher TP of RM3.90** (from 3.68) based on FY22E EPS of 30.0 sen and an ascribed PER of 13x, which is +1.5SD to its 5-year mean of 9.2x. We maintain our premium valuation for TGUAN on its continued expansion in its premium products and long-term expansion plans.

**Risks to our call include:** (i) faster-than-expected ASP declines, (ii) foreign currencies fluctuations, (iii) labour shortage and (iv) lower-than-expected margins.

# OUTPERFORM ↔

**Price:** RM2.40  
**Target Price:** RM3.90 ↑

### Share Price Performance



KLCI	1,608.28
YTD KLCI chg	2.6%
YTD stock price chg	-14.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	TGI MK Equity
Market Cap (RM m)	922.9
Shares Outstanding	384.5
52-week range (H)	2.98
52-week range (L)	1.95
3-mth avg daily vol:	344,168
Free Float	50%
Beta	1.1

### Major Shareholders

Foremost Equals Sdn Bhd	38.7%
Norges Bank	2.1%
Neoh Choo Ee & Company	1.8%

### Summary Earnings Table

FY Dec (RMm)	2021A	2022E	2023E
Turnover	1215.0	1453.9	1751.2
EBIT	123.4	154.1	187.4
PBT	125.2	153.7	186.3
<b>Net Profit (NP)</b>	93.0	115.3	139.8
<b>Core NP*</b>	94.4	115.3	139.8
Consensus (NP)	94.1	104.0	147.0
Earnings Revision	N.A.	15%	NEW
Core EPS (sen)	24.2	30.0	36.4
EPS growth (%)	21.8	24.1	21.2
NDPS (sen)	5.5	5.5	5.5
Core PER (x)	9.9	8.0	6.6
BVPS (RM)	2.0	2.2	2.5
PBV (x)	1.2	1.1	1.0
Net Gearing (x)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	2.3	2.3	2.3

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## Results Highlights

	4Q	3Q	QoQ	4Q	YoY			YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Revenue	328.7	296.8	11%	242.7	35%	1,215.0	960.6	26%
EBIT	30.6	30.7	0%	23.4	31%	123.4	97.5	27%
PBT	31.2	31.0	1%	24.2	29%	125.2	100.2	25%
Taxation	-6.7	-7.2	-0.1	-5.6	0.2	-27.1	-19.6	38%
<b>PATAMI</b>	<b>23.3</b>	<b>22.4</b>	<b>4%</b>	<b>17.3</b>	<b>35%</b>	<b>93.0</b>	<b>75.5</b>	<b>23%</b>
<b>Core PATAMI (CNP)</b>	<b>23.0</b>	<b>21.5</b>	<b>7%</b>	<b>19.7</b>	<b>17%</b>	<b>94.4</b>	<b>79.1</b>	<b>19%</b>
Core EPS (sen)	6.0	5.6	7%	5.1	17%	18.4	19.9	-8%
NDPS (sen)	2.3	1.3	80%	1.5	50%	5.5	4.5	22%
Effective tax rate	21.4	23.4		23.3		21.6	19.6	
Operating margin (%)	9.3	10.4		9.6		10.2	10.2	
PBT Margin (%)	9.5	10.4		10.0		10.3	10.4	
Core Net Profit Margin (%)	7.0	7.2		8.1		7.8	8.2	

Source: Company, Kenanga Research

## Segmental Breakdown

	4Q	3Q	QoQ	4Q	YoY			YoY
FYE Dec (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
<b>Turnover</b>								
Plastic products	300.0	273.8	10%	223.2	34%	1,117.6	882.1	27%
F&B, other consumable products	28.7	23.0	25%	19.5	47%	97.4	78.5	24%
<b>Group Turnover</b>	<b>328.7</b>	<b>296.8</b>	<b>11%</b>	<b>242.7</b>	<b>35%</b>	<b>1,215.0</b>	<b>960.6</b>	<b>26%</b>
<b>Segment Results</b>								
Plastic products	29.6	29.9	-1%	23.7	25%	119.8	96.2	24%
F&B, other consumable products	1.6	1.1	49%	0.5	210%	5.5	3.9	39%
<b>Group PBT</b>	<b>31.2</b>	<b>31.0</b>	<b>1%</b>	<b>24.2</b>	<b>29%</b>	<b>125.2</b>	<b>100.2</b>	<b>25%</b>
<b>PBT Margin</b>								
Plastic products	9.9%	10.9%		10.6%		0.4	10.9%	
F&B, other consumable products	5.6%	4.7%		2.7%		0.2	5.0%	
<b>Group PBT Margin</b>	<b>9.5%</b>	<b>10.4%</b>		<b>10.0%</b>		<b>0.4</b>	<b>10.4%</b>	

Source: Company, Kenanga Research

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## Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
<b>STOCKS UNDER COVERAGE</b>																	
BP PLASTIC HOLDING BHD	1.63	458.8	Y	12/2022	8.9%	12.7%	4.5%	5.4%	9.9	9.5	9.0	2.0	1.8	19.8%	6.7%	2.07	OP
SCGM BHD	2.10	404.4	Y	04/2022	15.1%	16.0%	7.9%	11.4%	11.8	11.0	9.9	2.1	1.9	18.2%	3.6%	2.80	OP
SCIENTEX BHD	4.43	6,870.9	Y	07/2022	16.5%	10.4%	13.0%	15.5%	15.5	13.7	11.9	2.4	2.1	16.4%	2.2%	4.42	MP
SLP RESOURCES BHD	0.940	297.9	Y	12/2022	9.7%	5.5%	28.6%	9.3%	17.0	13.2	12.1	1.6	1.6	12.0%	5.9%	1.18	OP
THONG GUAN INDUSTRIES BHD	2.40	922.9	Y	12/2022	19.7%	20.4%	22.2%	21.2%	9.9	8.0	6.6	1.2	1.1	14.3%	2.3%	3.90	OP
TOMYPAK HOLDINGS BHD	0.405	174.6	Y	12/2022	-66.5%	100.0%	-149.5%	-181.5%	N.A.	N.A.	N.A.	0.9	0.9	-15.5%	0.0%	0.195	Cease Coverage
<b>Simple Average</b>					<b>0.5%</b>	<b>27.5%</b>	<b>-12.2%</b>	<b>-19.8%</b>	<b>12.8</b>	<b>11.1</b>	<b>9.9</b>	<b>1.7</b>	<b>1.6</b>	<b>10.9%</b>	<b>3.45%</b>		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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